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## PECULIARITIES OF FORMATION OF NATIONAL REGULATORY OBJECTIVES

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**Summary.** In recent decades, theorists and practitioners in various fields of science (economics, social sciences, environmental sciences, political science, management and other sciences) have focused on the objectives of state regulation, distinguishing different approaches in interpretation of the essence and features of objectives of state regulation. First of all, in order to reveal the development of the formation of state regulation, its essence and preconditions, the development of concepts of state's emergence is being analyzed. The theoretical definition of objectives of state regulation includes retrospective of the concept of state regulation, concept of state's emergence, development of the provisions of contemporary economic theories, examining all these parameters separately and linking them into a single whole.

**Keywords:** state regulation; objectives of state regulation; concept of emergence of the state; economic theories.

### INTRODUCTION

Many researchers have studied state regulation, but the analysis of the concept of state regulation in the articles of various scientists should be analyzed from a historical point of view by examining different schools of economics, investigating the necessity, forms, and bases of state regulation. Therefore, in this part of the paper, we will examine the main schools that explain the emergence of the state and its essence. During the history, the role of the state in economic regulation has always been the field of economic science at a certain level. However, the boundaries of state's economic activity have always been the subject of discussions.

In theory and practice, state regulation is considered as the level of state's intervention in economic life. Such statement about the restriction of **state regulation** had an awareness of the supporters of liberal positions about the potential threat to the free market.

The theory of state regulation is based on the ideas that mankind has accumulated for thousands of years and continues to accumulate. Some ancient philosophers have argued that

the society is behindhand and poor because of the lack of effective state governance. The relation between state regulation and economic growth is being analyzed often in scientific literature. Also, state regulation can be called the effect on economic development or the reason that has a significant impact on economic growth. It should be noted that development of separate economic sectors depends on the impact of state regulation. Therefore, it is very important to understand what the state regulation is, to know what elements it consists of and what theoretical provisions prevail. Thus, perceiving the importance of the structure and activity of the objectives of state regulation, this paper examines the definitions of the concept of state regulation, retrospective of the concepts of state's emergence and evolution of the development of the provisions of contemporary economic theories.

**The problem** of the research - what are the main peculiarities of objectives of state regulation? **The objective** of the paper is to determine the peculiarities of the objectives of state regulation by analyzing the concepts of state's emergence and economic theories that analyze the role of state in the economy. **Methodology of the research** - analysis of scientific literature, based on the comparative aspect and methods of systematization, classification and generalization.

## THE CONCEPT OF STATE REGULATION, IT'S HISTORY AND DIVERSITY

Plato considered state governance (regulation) as the science of general people's feeding and argued that regulatory activity was an important element of a viable society system. The contribution of the ancient Greek and Roman thinkers to governance of society is invaluable. According to the contemporaries, Socrates, who considered knowledge and the ability to instill your own opinion to another person as the essence of governance, analyzed different forms of regulation. Xenophon claimed that governance of human is a special kind of art. In the same era, the Persian king, Cyrus, was exploring the cause of people's desire to work, i.e. motivation problems. Plato has introduced the concept of work specialization. Alexander Macedonian has created a collegial unit of planning and military governance - headquarters. The history of the millennial's philosophical and scientific thoughts has offered several alternatives explaining the emergence of the state and its essence and examining exotic versions, as well. However, when analyzing scientific literature, it became clear that all of them can be divided into two groups (see Table 1).

**Table 1.** Classification of concepts of state emergence

Theories of state emergence	
Based on the assumption about targeted people's actions	Based on the assumption about "natural" or evolutionary process
<b>Theory of agreement</b> (H. Grotius, B. Spinoza, T. Hobbes, J. Locke, J.J. Rousseau)	<b>Theocratic theory</b> (šv. Augustinas, T. Aquinas)
<b>Theory of coercion (Conquest)</b> (F. Oppenheimer, E. Duhring, L. Gumplowicz, K. Kautsky)	<b>Patriarchal (paternalistic) theory</b> (Platon, Aristotle, Confucius, R. Filmer)
<b>Theory of economic determinism (Class theory)</b> (K. Marks, F. Engels)	<b>Organic theory</b> (H. Spencer)
<b>Theory of irrigation (hydraulics)</b> (K.A. Wittfogel)	<b>Psychological theory</b> (S. Freud, E. Durkheim, G. Tarde)

Theory of agreement is most often used in the economics when it comes to explaining the state's emergence. According to the proponents of this theory, the state has emerged when people deliberately and voluntarily decided to create state institutions in order to protect their property rights. The unpredictability of natural elements and combative neighboring tribes also dictated the necessity of consolidation.

A similar theory to the abovementioned theory by its essence is the theory of irrigation (hydraulics), linking the emergence of the state with the necessity of building giant irrigational structures in the agrarian territories of ancient Mesopotamia, Egypt, India and China. The emergence of such structures has led to the creation of a layer of managers-professionals and social groups that ensure distribution and accounting. Such type of economy required strict centralized management, which also ensured the creation of a state.

As a counterweight to previous assumptions, the conquest theory stands out. Its initiators state that the first states emerged because of the influence of an external factor – when big and strong tribes conquered the weaker and smaller ones. Conquerors then persuaded the masses of people, and the state would become the governing body of the winners against the defeated ones.

Theory of economic determinism or class theory is mostly represented in Marxist conception. It explains the rise of the state as the emergence of private property, and the division of society into antagonistic classes with conflict interests. As a result, the emergence of the state is being explained as an instrument to reduce the opposition of lower class and as the result of socio-economic processes in the society.

Theocratic theory of state's emergence accepts the fact of its emergence as the creation of God, based on the thesis 'all authority come from God'. The latter concept is based on real historical facts: the first state science had religious forms (management of wizards), and this theory became popular in the Middle Ages, when the church sought to justify its supremacy of governance against the secular governance.

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Patriarchal (paternalistic) theory bases the emergence of a state as a process of merging small families into one large family under the leadership of a leader who cares for his obedient ones. Here the patriarchal (family's) government evolves into a state government. This concept has acquired the modern understanding of state parentalism. It was believed that the state's actions will be implemented in accordance with the maximization criterion for the function of general welfare, which, in turn, emanates from the identification of the state's and society's interests.

The organic theory of state's emergence is based on the analogy between society's and biological organism: both are characterized by development stages, for example, the transition from simple to complex. By expanding conquest practice, the structure of society becomes more complex, classical distribution emerges, a ruling class appears, and militarized society reaches the unity based on the hierarchical organization state and governance.

The psychological theory explains the creation of a state by special features of human psyche - the desire of individuals to have an authority whose instructions can be followed in everyday life. It is to be argued that the emergence of state and law is caused by human emotions and experiences, without which the existence of permanent social groups is impossible.

The aforementioned theories of the emergence of a state do not, in principle, contradict each other, but rather complement each other. In addition, we cannot consider the provided list as complete. Theories such as the patrimonial (Karl Ludwig von Haller), sports (Jose Ortega y Gasset), the diffusion (Robert Fritz Graebner), the racial (Joseph Arthur de Gobineu), and others, also do not claim to be versatile, considering only one factor of state formation. In any case, as shown by the comparative studies of the last decades, based on the confirmation of plurality factors, there is no single and necessary cause for the emergence of a state. The state is more likely to be a result of a series of external - geographic, ecological, economic, technological, and institutional impacts.

Most authors, with a contractual opinion, especially with the support of Douglas Norte, treat the state as an organization with relatively clear advantages in enforcing coercion, spread over a geographical area bounded by its ability to determine the taxes for existing entities. In this case, the coercion is understood as a synonym for government, which is an effective mean for redistribution of wealth in a world with limited resources. In other words, the state is a monopolist of legal coercion. There are many examples in economics history when, during the longer or shorter period, residential and other activities in communities were held without central government, such as the Californian Golden Age (John Umbeck, 1981). A prerequisite

for the emergence of such community was the relatively uniform distribution of potential of coercion (in this case it is about the six-stroke colonies that all miners used to have in order to reach for horizontal social contract). The American economists Martin C. McGuire and Mancur Olson proposed a different approach to understanding the “agreement” of a state's emergence as a vertical social contract. They separated the social contract from the deal with “state of exploitation” by giving an example when in the 1920s China was under control of many armed groups. The governor, who was a former bandit in the past, changed the robbery into a form of taxation, thereby completing his activity of the wandering bandit. The absence of the governor, as well as of exclusive rights to the territory, prompted the region to quickly erode resources and devastate local farms. In this case, the approach of “state of exploitation” uses a monopoly of coercion to maximize income for the benefit of the governor or group of individuals, and as a rule, it wins in a contradiction with an individual or a group of people, as the average cost of coercion's implementation is lower than that of opponents.

Already when the first economic theories had emerged - the researchers studied the role of the state in the economy. It is expedient to study the main assumptions of economic regulation concepts presented by different authors. Depending on the general conception, the schools of economics differ in their assessment of the essence and significance of state regulation instruments, as well as economic trends.

## **MAIN PROVISIONS OF CONTEMPORARY ECONOMIC THEORIES ON THE ROLE OF THE STATE IN THE ECONOMY**

One of the first schools of economic thought is mercantilism (it. mercante - merchant, trader). Representatives of the mercantilism school of the early 16th - 17th centuries supported the need for an active state economic policy.

The Merkantilists identified property with money and sought to accumulate money inside the state. Advocates of early mercantilism theories (V. Staford, G. Skarufi) suggested for the states to implement measures in order to keep money inside the state. They proposed to ban export of money abroad, to introduce a state's monopoly for currency trading and foreigners had to spend all income received from the sale of goods on purchasing local products. Representatives of the late mercantilism (Thomas Mun, James Stuart) based the state's economic policy on the fact that in the area of trade the most important task is to achieve an active trade balance. As it was claimed by representatives of late mercantilism, the state is the richer the higher the difference of price between the exported goods and goods imported to the

state. Merkanalist ideas have become the theoretical basis of state policy, which has received the title “protectionism” and which is aimed at promoting the state's economy and its protection from foreign competitors. In fact, since the 17th century until today, there has been no state in the world that under certain conditions did not use an economic protectionist policy, and some elements of such policy are still being used today. In individual cases, developed countries use the measures of support for exporters and protection of the internal market from importers, endeavoring to balance the trade and payments. As a counterweight to the form of protectionism, the World Trade Organization was established to combat the economic and administrative barriers that restrict international competition.

The physiocracy theory (F. Quesnay, A. R. Turgot, the 17th century) contributed a great deal of knowledge about the function of macroeconomic regulation. Representatives of this school, speaking for freedom of trade, considered agricultural production and agriculture as the main source of state assets, because only in this field clean products were created. It is this school that has merits for the results of research at macroeconomic level, reproduction, social product chains, income analysis. The physiocracy theory raised the question of the development of priority sectors (agriculture) and their support by state regulation instruments (taxes, customs).

Subsequently, by the end of stage of the initial capital accumulation, economists increasingly started to criticize the position of mercantilism and endorsed the policy of economic liberalism. The founders of classical political liberal economy, A. Smith (1723-1790), D. Ricardo (1772 - 1823) also based their approach on that. The basics of A. Smith's teaching were explained in his book “An Inquiry into the Nature and Causes of the Wealth of Nations” (1776). He had an approach of “natural harmony” (balance), which in economics was determined with the absence of state regulation. A. Smith tried to prove that the state was essentially unsuitable for economic functions. In addition, the state is a bad administrator, because its officials are often negligent, unscrupulous, because they are not directly interested in a good administration, and they are paid from public funds (Gide and Rist, 1932). A. Smith, being an obvious advocate of a free market (the less public intervention, the better), was not against all government actions aimed at increasing the overall level of well-being<sup>1</sup>.

The general evolution of economic theories that denied the active role of the state in the economy was violated by J.M. Keynes theory. The Keynesian conception is basically based on

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<sup>1</sup> Urbonas, J.A. ir kt., (2009). Ekonomikos teorijos: praeitis ir dabarties tendencijos. Kaunas: Technologija.

the ideas of one of the most successful 20th century's economists John Maynard Keynes (1883-1946). He scientifically grounded the concept of 'macroeconomics', which has formed as an independent scientific discipline after J. Keynes's most famous book "The General Theory of Employment, Interest, and Money" was published in 1936. Keynes's main ideas in the book were related with economic fluctuations, and Keynes was particularly skeptical about the principles of "natural harmony" in the economy. In his view, the system of free market lacks an internal mechanism that would ensure the macroeconomic balance. The central point of Keynes's theory is that the level of employment in each country is determined by the size of effective demand, which consists of consumer demand and investment demand. Keynes contradicts the neo-classical statement that in the event of unemployment, the market mechanisms that will solve the employment problem will automatically take place. By the 20th century's 7th decade the Keynesian theory was the most popular and the economic policy of developed countries was based on it. Later, in the middle of 20th century, the followers of Keynes, analyzing his ideas, developed the concept of economic system influenced both by the free market and the state. Here the state performs a function of "stabilizer" by eliminating (or leveling) the volatility of socio-economic development. In the 1970s, when facing a serious global crisis of energy, two factors emerged: a decline of production and inflation, which was given a generalized name of stagflation. According to the critics of the Keynesian theory, this theory could not sufficiently explain the new phenomena of economic development, and their conclusions in the field of economic policy deepened the negative consequences.

Monetarism (Karl Bruner, Milton Friedman, Irving Fischer) is the most significant among such theories. The theory of money is based on this idea, which treats money as the main element of a free market's economy. According to this theory, the mass of money in circulation directly influences the price level. This means that money serves as a function for management of demand and, accordingly, influences the employment and scope of production. Monetarists say that state regulation is harmful from the side of the business initiative, destabilizes the economy and is essentially bureaucratic. Therefore, they are proposing to minimize the state's interference in the economy, leaving only fiscal management policy. In this way, the essence of monetary policy is to regulate the proposed amount of money for the stabilization of the national market. Modern monetarists pay special attention to the socio-psychological climate of economic growth, where factors of waiting and unexpectedness are important. There are different branches of modern neo-institutionalist theory (R. Coase, J. McGill Buchanan, D. North) among the theories denying the active role of the state in economic regulation.



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According to this theory, there are insufficiencies of the market that need to be filled by the state, which means that the mechanism of market's self-regulation is being questioned. These insufficiencies include: monopolies, information asymmetry, peculiarities of the political cycle, bureaucracy and corruption. Therefore, the solutions of this problem are optimization of state's economic functions and increasement of efficiency.

One of the methods for management of economic process is state dirigisme. The author of this method (Fransua Peru), as well as other representatives of the institutionalism, had a critical approach on classical market theory. The main object of their criticism was the abstraction of the theory, the mismatch of its position with the real markets that arose in many countries in the second half of the 20th century. In their view, the mechanism of free market can no longer perform the role of the balance regulator. The market is structurally transformed by monopolies and by intervention of other institutions. F. Peru opposed the treatment of the economy as closed, independent system. He believed that the economy was inextricably linked with social relations, as well as with politics and ideology, therefore, accordingly, he supported the demand for state's regulation in the economy. The backwardness of the country after the Second World War required for restoration and modernization of economics, reconstruction of old industries and the acceleration of new industries' development and economic growth - all of which required more active and long-term state's economic policy. In the economic dirigisme, i.e. in the management of economic processes, F.Peru saw the possibility of restructuring the economics. In economic theory, consistency is understood as one of the concepts of economic equilibrium, according to which the achievement of equilibrium and its persistence in the economy are classified as main macroeconomic goals. Swiss economist Marie Walras was the first who offered the concept of general economic equilibrium as a universal instrument for analyzing the economic system. However, the market economy cannot fully guarantee the economic, social, environmental and other interests of all members of the society. It needs to be noted that in the event of economic equilibrium, socially important issues cannot be solved for one social group of society, without prejudice to the welfare of the other social group. In addition, the regulation of the economic sector imbalances the natural functioning of the market's equilibrium mechanisms, restricts the interests of business subjects, and among other things, the state regulation of economic policy has disadvantages, thus the balance of interests of all members of society is not maintained.



**Table 2.** Authors who analyzed the theories of regulation

Theory	Researchers	Year of emergence
<b>Mercantilism</b>	V. Staford, G.Skarufi	XVI – XVII c.
<b>Protectionism</b>		XVII c.
<b>Physiocracy theory</b>	F.Quesnay,A.R.Turgot	XVII c.
<b>Liberalism</b>	A. Smith, D. Ricardo	1776- y.
<b>Keynesian</b>	J.M. Keynes	1936 -1970 y.
<b>Monetarism</b>	Karl Bruner, Milton Friedman, Irving Fischer	XX c.
<b>Institutionalism</b>	T. Veblen	XX c.
<b>Economic equilibrium</b>	M. Walras	1970 y.
<b>Regulation theory</b>	G. De Bernis	1977 y.

## SCIENTIFIC STRATEGIC APPROACH TO STATE REGULATION

Examples of recent history testify to the active role of the state in the economy. In particular, it has grown in the financial sphere, its influence on the stability of the financial system is primarily carried out through macro-regulation of interest rates and realization of credit's policy measures. The state, as a provider of goods and services for national needs, has become a business entity and influences market prices and volumes of demand and supply. Budgetary, tax and financial instruments of credit are real factors of impact for economic development. Under these conditions, the economy is characterized as mixed. Its dynamics and mechanisms are based on the functioning of the state and the market.

Active - interventional participation of the state in the national economy in order to achieve implementation of social priorities, manifest as: realization of legal regulation, regulation of personal income, regulation of labor relations, social security, tax and other measures. Active participation of the state in satisfying the social needs of all members of society treats the modern society as a society of social market's economy. In the opinion of scientists, a socially oriented economy is a system that combines contradictory aspects such as: economic efficiency of the market and social justice, economic growth and full employment, mechanism of market's self-regulation and state regulation<sup>2</sup>. The state in a market economy must create conditions for that sector of the economy that does not function according to laws of the market - the so-called socio-cultural field: science, culture, education, demographic

<sup>2</sup> Rakauskienė, O. (2006). Valstybės ekonominė politika (fiskalinė, užsienio prekybos ir socialinė politika). Vilnius: Mykolo Romerio universitetas.

processes, full employment, health care, environmental protection, pensioners, people with disabilities, maternity support<sup>3</sup>. State regulation is divided into social and economic (Bakaveckas et al., 2005). Thus, in order to reveal the essence of the phenomenon and taking into account the functions, goals, and measures of positive (in Latin *positus* – “situated”) regulatory, it can be argued that state regulation can be defined as an active, necessary and legitimate activity of state institutions, implementing the social-economic functions of the states and using the positive measures of economic policy regulation, in order to maintain the balance between the well-being and interests of all groups of society.

While in the 20th century the socio-economic relations were developing, both supporters of state intervention and its opponents could not deny the need to use the state as a stabilizer in the global production. In the event of market’s insufficiency, the necessity of state regulation is traditionally determined and situation related with imperfection of competition occur when there is a possibility to influence the economics of production quantities or agreements, the emergence of external relations, incomplete information or its asymmetry, demand for public goods, as well as market insufficiency in some licensed spheres, such as insurance and credit. However, the choice of the “right path” and formation of prospective public objectives today remain the law of the state and are carried out in the most popular public consensus on justice which was in natural or coercive way established in public opinion. When assessing justice, three main methods of selection can be distinguished. In the case of classical liberalism, it is stated that the state must only influence such changes, which correspond to the Pareto optimal criterion, i.e. resources should go to those who can pay the highest price for them, therefore they can use them in the most rational way. In this case, the right path is understood as market’s distribution and equal conditions are understood here as equality of opportunity, not equality of results. Understanding the function of public welfare is acceptable to utilitarianism which is an amount of individual functions of utility. In this case, the functioning of a state can be considered as successful when the combined benefit of all members of society increases. Egalitarianism places priority on the equality of members of society. Here cohesion and solidarity are valued more than individual achievements or independence from the state. A special approach to egalitarianism was suggested by the American philosopher John Rawls. According to the attitude of his followers, recognition of justice of a phenomenon is possible only by assessing the present social status according to what it will be tomorrow. In this case,

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<sup>3</sup> Ibid.

the function of the system is to improve the situation of the least-equipped members of the society. The main objectives of state regulation can be classified into the structure (see Table 3).

**Table 3.** Classification of objectives of state regulation

Attributes of classification	Objectives of regulation
By sphere of regulation	Social-political Economical Social Organizational (structural) Informative Cultural
By level in the structure of objectives' tree	Strategic Operative Tactical or supplying
By time of realization	Prospective Direct
By object of objectives	Private Public
By probability of the results	Final Temporary

## CONCLUSIONS

Studies have shown that the theory of state regulation has developed rapidly, and the attitude has evolved, but modern economic science, despite persistent disagreements and discussions, confirms a general approach to these areas of activity of the state in the economic sphere: coordination of macroeconomic policies (taxes, budget, regulation of the financial sphere), business activity to a certain extent (public procurement), regulation of monopoly activities, influence on economic growth (investment in human capital, efficiency of state institutions), application of benefits to vulnerable groups of society (pensioners, unemployed people, people with disabilities). The following measures of state economic regulation can be distinguished: political (long-term economic strategy) measures, economic measures (participation of the state in markets, preparation of measures stabilizing the economy), financial measures (state fiscal-monetary policy, determination of tax and tax incentives), legal measures (regulation of legal relations), environmental measures (determination of limit values for environmental pollution, promotion of environmental programs), social (social programs,

targeted social measures and benefits). Neither the unanimous assessment of the results of state economic regulation is possible from the society's side, nor a simple diagnostic tool exists, which would allow to confidently claim that intervention of the state is rational. However, most economics schools agree on the need to look for a compromise between economic growth and equality. It should be noted that the main stage of organization of state economic regulation is determination of the objectives of state's bureaucracy and its analysis by sphere of regulation. Objectives must be determined not only by to the size of their impact on the economy of the country, but also based on the quantitative parameters of expenditure and the level of institutional support for achievement of them.

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